

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
L-03 H-02 DODE-00 PA-02 AGRE-00 DOE-15 SOE-02
IO-14 /153 W

-----025311 311806Z /46

R 311708Z JUL 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 0744
DEPARTMENT TREASURY
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY BRUSSELS
AMEMBASSY OTTAWA
AMEMBASSY TOKYO

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USEEC AND USOECD ALSO FOR EMBASSIES
DEPARTMENT PASS CEA AND FRB

E.O. 11652: N/A
TAGS: EFIN GW
SUBJECT: THE GERMAN GOVERNMENT'S ECONOMIC STIMULATION
PROGRAM

REF: BONN 13867

1. SUMMARY -- THIS CABLE REPORTS DETAILS OF THE GERMAN
GOVERNMENT'S ECONOMIC STIMULATION PROGRAM PROPOSED BY
THE FEDERAL CABINET ON JULY 28. THE PROGRAM INVOLVES
EXPENDITURE INCREASES, TAX DECREASES, AND TAX INCREASES
ESTIMATED BY THE GOVERNMENT TO NET DURING 1979 DM 12.25
BILLION OF ADDITIONAL DEFICIT SPENDING (FOR ALL LEVELS
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OF GOVERNMENT) AND ANOTHER ADDITIONAL DM 3.2 BILLION IN
1980. THE 1979 PART OF THE PACKAGE CONCENTRATES ON
PERSONAL INCOME TAX RELIEF (EFFECTIVE JANUARY 1, 1979)
AMOUNTING TO AN ESTIMATED DM 10.9 BILLION. THIS IS TO BE
PARTIALLY OFFSET BY AN INCREASE OF THE VAT FROM 12 TO 13
PERCENT EFFECTIVE JULY 1, YIELDING DM 2.5 BILLION IN
1979. THE PACKAGE ALSO PROVIDES FOR ADDITIONAL FEDERAL

EXPENDITURES AMOUNTING TO DM 4.7 BILLION IN 1979. END SUMMARY.

2. THE TAX MEASURES PROPOSED EFFECTIVE 1979 AND ESTIMATED BY THE GOVERNMENT TO RESULT IN PUBLIC SECTOR REVENUE LOSSES OF DM 10.9 BILLION ARE:

(A) A NEW PERSONAL INCOME TAX SCHEDULE ELIMINATING THE PRESENT JUMP FROM THE 22 PERCENT FLAT RATE TO A MARGINAL TAX RATE OF 30.8 PERCENT FOR INCOMES EXCEEDING DM 16,000/32,000 (SINGLE/MARRIED) AND ALLEVIATING THE PROGRESSION UP TO INCOMES OF DM 48,000/96,000.

(B) A DM 390/780 INCREASE IN THE BASIC EXEMPTION. THUS, INCOMES UP TO DM 3690/7380 WOULD REMAIN TAX FREE.

TAXPAYERS' SAVINGS AS A RESULT OF THESE TWO MEASURES TOGETHER WOULD RANGE FROM DM 85/L70 TO DM 901/1802 PER ANNUM DEPENDING ON THEIR INCOME BRACKET.

(C) INTRODUCTION OF A TAX DEDUCTION (UP TO DM 9000 PER ANNUM) FOR TAXPAYERS OUTLAYS IN SUPPORT OF SEPARATED OR DIVORCED WIVES OR HUSBANDS UNCLASSIFIED

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WITH THE SUPPORT PAYMENTS THAN TREATED AS TAXABLE INCOME OF THE RECIPIENT.

3. THE DM 4.7 BILLION ADDITIONAL FEDERAL EXPENDITURES PROPOSED FOR 1979 ARE:

(A) THE INCREASE IN THE FEDERAL DRAFT BUDGET TO DM 201.7 BILLION OVER THE DM 200 BILLION FORESEEN IN THE MEDIUM-TERM FINANCIAL PLAN. THIS INCREASE HAD ALREADY BEEN ANNOUNCED BY FINANCE MINISTER MATTHOEFER ON JUNE 24, BUT HAS ONLY NOW BEEN RATIFIED BY THE CABINET AS PART OF THAT PACKAGE.

(B) AN INCREASE OF GOVERNMENT SUPPORT OF LARGER FAMILIES, WITH SUBSIDIES FOR THE THIRD AND EVERY ADDITIONAL CHILD TO BE RAISED BY DM 45 TO DM 195 PER MONTH; INTRODUCTION AS OF JULY 1, 1979 OF GOVERNMENT SUBSIDIES FOR EMPLOYEES GIVING BIRTH TO A CHILD UP TO DM 750 PER MONTH FOR A PERIOD OF UP TO SIX MONTHS WITH THE GOVERNMENT ASSUMING THE PAYMENTS

AFTER THE EMPLOYERS' OBLIGATIONS UNDER PRESENT
LAW HAVE BEEN EXHAUSTED. REDUCTION OF THE
VOLUNTARY RETIREMENT AGE FOR INVALIDES FROM
62 TO 61 YEARS EFFECTIVE 1979. (THE TOTAL

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COSTS OF ALL THESE SOCIAL MEASURES IS
ESTIMATED BY THE GOVERNMENT AT DM 2.0 BILLION.-

(C) ADDITIONAL FEDERAL EXPENDITURES FOR RESEARCH
AND DEVELOPMENT AND FOR THE PROMOTION OF
RESEARCH AND DEVELOPMENT, PARTICULARLY BY
MEDIUM-SIZE AND SMALL BUSINESS, AND OUTLAYS
FOR ENVIRONMENT PROTECTION. (THE TOTAL COST
IS ESTIMATED BY THE GOVERNMENT AT DM 0.9
BILLION.)

(D) ADDITIONAL BERLIN AID PROGRAMS (DM 0.1 BILLION).

4. THE PROPOSED VAT INCREASE FROM 12 TO 13 PERCENT

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EFFECTIVE JULY 1, 1979 IS ESTIMATED TO YIELD ADDITIONAL REVENUE OF DM 2.5 BILLION IN 1979. (THE FULL YEAR YIELD IS ESTIMATED AT DM 7.0 BILLION, BUT THERE WILL BE AN ESTIMATED TWO-MONTH DELAY TILL THE ADDITIONAL REVENUES FLOW INTO THE PUBLIC COFFERS.-

5. WHEN ONE ADDS THE DETAILED FIGURES GIVEN OUT BY THE GOVERNMENT ON THE COST OF THE VARIOUS MEASURES, THE NET EFFECT FOR 1979 AMOUNTS TO DM 13.10 BILLION INSTEAD OF THE DM 12.25 BILLION ANNOUNCED BY CHANCELLOR SCHMIDT ON JULY 28. WE ASSUME THAT THERE MUST HAVE BEEN SOME LAST MINUTE CHANGES IN SOME OF THE ESTIMATES OR PROGRAMS WHICH ARE NOT YET REFLECTED IN THE DETAILED FIGURES.

6. THE GOVERNMENT EXPECTS THAT THE TOTAL FINANCING REQUIREMENTS OF ALL LEVELS OF GOVERNMENT (INCLUDING SOCIAL INSURANCE) WILL NOT EXCEED DM 60 BILLION IN 1979 AND INTENDS TO TAKE MEASURES TO ASSURE THIS.

7. FOR 1980 THE GOVERNMENT PROGRAM ENVISAGES ADDITIONAL INCOME TAX RELIEF OF DM 3.2 BILLION (AN INCREASE IN THE TAX DEDUCTION FOR INSURANCE PAYMENTS MAINLY BY SELF-EMPLOYEED), CONTINUATION OF THE SOCIAL PROGRAMS DECIDED FOR 1979, AN INCREASE IN CHILDREN ALLOWANCES FOR THE SECOND CHILD, AND A FURTHER REDUCTION IN THE VOLUNTARY RETIREMENT AGE OF DISABLED PERSONS. FINALLY IT PROPOSES A DM 2.8 BILLION REDUCTION IN THE GEWERBESTEUER THROUGH AN ABOLITION OF ONE ELEMENT OF THIS TAX -- THE PAYROLL TAX -- AND AN INCREASE IN THE EXEMPTION FOR ANOTHER ELEMENT -- THE BUSINESS CAPITAL TAX. THESE ADDITIONAL MEASURES WILL, HOWEVER, BE PARTIALLY OFFSET BY AN INCREASE OVER 1979 OF DM 4.5 BILLION IN VALUE

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ADDED TAX RECEIPTS SO THAT THE TOTAL ADDITIONAL STIMULATIVE EFFECT FOR 1980 IN CALCULATED AT DM 3.2 BILLION.

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